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SUBJECT: Illicit Financial Activities in China: Potential
for Bilateral Cooperation

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11. (SBU) Summary: On December 30, Director General Tang Xu of the People's Bank of China (PBOC) Anti-Money Laundering Bureau (AMLB) outlined recent efforts to combat illicit financial activities in China, including Penal Code revision and expanded on-site examinations. He suggested USG agencies could work with China's Ministry of Public Security (MPS) on trade-based money laundering (TBML) cases. For potential bilateral cooperation with PBOC, Tang listed repatriation of embezzled funds, underground banking, and information sharing as possible focuses. According to Tang, over the past year PBOC increasingly has focused on cross-border money movements via underground banking channels. End Summary.

12. (SBU) During a December 30 meeting with Finatt, People's Bank of China (PBOC) Anti-Money Laundering (AML) Director General Tang Xu outlined recent efforts to combat illicit financial activities in China. The National People's Congress (NPC) is conducting additional readings of judicial interpretations of Penal Code articles on the offenses and definitions included under AML/CFT laws, a process Tang expected would take a few more months to conclude. (Comment: Draft laws require three readings before they become law.) In addition, PBOC has expanded its on-site examinations this year, not only in the banking sector but also within the securities and insurance industries. Tang noted that the regulators of those sectors currently do not participate in those examinations, which Tang believes are most effective when done by the local PBOC branches.

13. (SBU) Finatt briefed Tang on U.S. concerns regarding trade-based money laundering (TBML), noting that U.S. law enforcement agencies are open to working with the PBOC/AML Bureau and other Chinese entities on transnational schemes that launder international drug money. Tang responded that the AML system in China is still new; with only 30 staff members, the AMLB has limited capacity to engage intensively on international initiatives. Tang also observed that the United States and China have different priorities on illicit finance: while the U.S. seems focused on combating terrorist financing and money laundering in foreign countries, China concentrates on money laundering in China. Tang suggested the USG could work with the Ministry of Public Security (MPS) on TBML issues; while the PBOC has limited legal authority to freeze assets at risk of leaving China (48 hours), the MPS probably enjoys more comprehensive

authority for asset seizures.

¶4. (SBU) Asked about areas of possible bilateral cooperation between PBOC and the USG, Tang suggested several possibilities. One area would be repatriation to China of funds corrupt officials may have stripped from state-owned enterprises and sent to the United States. A second topic could be underground banking, where funds are moved either in cash or electronically from illegal private banks. Finally, the PBOC's AMLB would like to be able to share information with Treasury's Financial Crimes Enforcement Network (FinCEN) and others, on a case by case basis.

¶5. (SBU) Tang said over the past year PBOC increasingly has focused on cross border money movements via underground banking channels: in 2008, PBOC worked with MPS on 45 underground banking investigations, six of which were money laundering cases. Before 2008, Tang said the PBOC had only seen four such cases over the last 10 years. He added that the illegal underground banks being targeted for prosecution differ from the informal banks that provide financing to Chinese private sector companies, largely in southern coastal provinces, and which the PBOC is encouraging to become regulated finance companies.

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